uMdoni Municipality
(Registration number KZN212)
Annual financial statements
for the year ended 30 June 2019

General Information

Nature of business and principal activities	Local Municipality
Mayoral committee	
Executive Mayor	Cllr WT Dube (Mayor)
	Cllr ST Khathi (Deputy Mayor)
	Cllr NP Mpanza (Speaker)
	Cllr BC Mngadi (EXCO Member)
	Cllr EV Baptie (EXCO Member)
	Cllr S Mzelemu (EXCO Member)
	Cllr SSI Khwela (EXCO Member)
	Cllr MJ Cele (EXCO Member)
Councillors	Cllr R Brijraj (MPAC Chair)
	Cllr KK Armugam
	Cllr M Ally
	Cllr RB Bhoola
	Cllr SH Cele
	Cllr LR Dlamini
	Cllr JJ East
	Cllr DP Gambushe
	Cllr JNE Gwala
	Cllr ZT Hlongwa
	Cllr DMM Hlengwa
	Cllr NY Khabela
	Cllr BO Mbhele
	Cllr HDT Mtambo
	Cllr LN Myende
	Cllr MC Ngcobo
	Cllr JM Ndela
	Cllr FM Ngwane
	Cllr PN Nombika
	Cllr BB Sosibo
	Cllr SC Shange
	Cllr S Singh
	Cllr S Sookhraj
	Cllr SD Mdluli
	Cllr MA Khan
	Cllr T Sokhulu
	Cllr PE Thabethe
	Cllr DN Hlongwa
	Cllr RS Maharaj
Grading of local authority	3
Accounting Officer	Dr VP Tsako (Appointment Date 01/11/2018)
Chief Finance Officer (CFO)	Ms T Mhlongo
Registered office	Cnr Bram Fischer and Williamson Streets
	Scottburgh
	4180
	www.umdoni.gov.za
Business address	Cnr Bram Fischer and Williamson Streets

General Information

	Scottburgh 4180
Postal address	P O Box 19 Scottburgh 4180
Bankers	Standard Bank
Auditors	Auditor General of South Africa Registered Auditors

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CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.
The accounting officer also certifies that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Going concern

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and signed on its behalf by:

Accounting Officer
Dr VP Tsako

Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	2	204 372 080	200 097 180
Receivables from exchange transactions	3	4 856 759	14 241 007
Receivables from non-exchange transactions	4	65 065 304	54 229 571
VAT receivable	5	11 788 672	12 192 264
Operating lease asset	6	174 806	69 012
Inventories		8 849 172	8 849 172
		295 106 793	**289 678 206**
Non-Current Assets			
Investment property	7	9 823 977	10 231 942
Property, plant and equipment	8	717 703 559	734 628 681
Intangible assets	9	1 621 440	1 613 242
Heritage assets	10	261 011	261 011
		729 409 987	**746 734 876**
Total Assets		**1 024 516 780**	**1 036 413 082**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	57 869 667	52 848 315
Unspent conditional grants and receipts	12	8 787 933	2 167 155
Finance lease obligation	13	901 244	1 696 536
Employee benefit obligation	14	1 418 380	1 369 526
		68 977 224	**58 081 532**
Non-Current Liabilities			
Finance lease obligation	13	-	892 525
Provisions	15	12 769 247	12 559 126
Employee benefit obligation	14	19 481 801	18 836 985
		32 251 048	**32 288 636**
Total Liabilities		**101 228 272**	**90 370 168**
Net Assets		**923 288 508**	**946 042 914**
Reserves			
Housing Development Fund		12 595 850	12 595 850
Accumulated surplus		910 692 658	933 447 064
Total Net Assets		**923 288 508**	**946 042 914**

* See Note 49

Statement of Financial Performance

	Note(s)	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Sale of goods	16	2 251 981	2 533 736
Service charges	17	9 928 737	9 434 419
Rental of facilities and equipment	18	6 319 994	5 640 909
Rendering of services	19	2 220 561	1 646 555
Interest received - investment	20	14 249 699	14 285 877
Total revenue from exchange transactions		**34 970 972**	**33 541 496**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	92 363 754	89 864 627
Property rates - penalties imposed	21	5 904 083	5 788 543
Licences and Permits (Non-exchange)	22	7 631 179	8 333 414
Transfer revenue			
Government grants & subsidies	23	164 734 154	182 973 411
Fines, Penalties and Forfeits	24	1 806 945	1 522 131
Total revenue from non-exchange transactions		**272 440 115**	**288 482 126**
Total revenue		**307 411 087**	**322 023 622**
Expenditure			
Employee related costs	25	(103 292 812)	(86 877 090)
Remuneration of councillors	26	(14 487 719)	(13 530 312)
Contributions to Landfill Site Provision	27	(210 121)	(295 552)
Depreciation and amortisation	28	(55 214 868)	(40 122 270)
Finance costs	29	(161 394)	(321 448)
Lease rentals on operating lease	30	(233 418)	(855 361)
Debt Impairment	31	(18 005 959)	(5 819 494)
Bad debts written off		(495 105)	-
Contracted services	32	(77 988 857)	(66 714 166)
Transfers and Subsidies	33	(4 815 363)	(5 650 486)
General Expenses	34	(53 412 655)	(34 352 393)
Total expenditure		**(328 318 271)**	**(254 538 572)**
Operating (deficit) surplus		**(20 907 184)**	**67 485 050**
Gain on disposal of assets and liabilities		-	481 457
Impairment loss		(1 644 816)	-
		(1 644 816)	**481 457**
(Deficit) surplus for the year		**(22 552 000)**	**67 966 507**

The accounting policies on pages 12 to 44 and the notes on pages 44 to 81 form an integral part of the annual financial statements.

* See Note 49

Statement of Changes in Net Assets

	Housing Development Fund R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	10 679 468	865 042 931	875 722 399
Adjustments			
Correction of errors	-	437 626	437 626
Balance at 01 July 2017 as restated*	**10 679 468**	**865 480 557**	**876 160 025**
Changes in net assets			
Surplus for the year	-	67 966 507	67 966 507
Transfer received for Conveyancing Fees	1 916 382	-	1 916 382
Total changes	1 916 382	67 966 507	69 882 889
Restated* Balance at 01 July 2018	**12 595 850**	**933 447 095**	**946 042 945**
Changes in net assets			
Surplus for the year	-	(22 552 000)	(22 552 000)
Unallocated receipts written off	-	(202 437)	(202 437)
Total changes	-	(22 754 437)	(22 754 437)
Balance at 30 June 2019	**12 595 850**	**910 692 658**	**923 288 508**

* See Note 49

Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Property rates		96 870 231	92 205 757
Sale of goods and services		12 099 562	7 763 518
Grants		178 858 798	171 931 000
Interest income		14 249 699	14 285 877
		302 078 290	286 186 152
Payments			
Employee costs		(113 240 597)	(95 738 459)
Suppliers		(143 360 963)	(138 389 881)
		(256 601 560)	(234 128 340)
Net cash flows from operating activities	36	**45 476 730**	**52 057 812**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(38 686 072)	(55 782 565)
Proceeds from sale of property, plant and equipment	8	-	929 767
Purchase of other intangible assets	9	(666 547)	(862 179)
Net cash flows from investing activities		**(39 352 619)**	**(55 714 977)**
Cash flows from financing activities			
Finance lease payments		(1 849 211)	(1 978 195)
Net increase/(decrease) in cash and cash equivalents		**4 274 900**	**(5 635 360)**
Cash and cash equivalents at the beginning of the year		200 097 180	205 732 540
Cash and cash equivalents at the end of the year	2	**204 372 080**	**200 097 180**

* See Note 49

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance and Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	9 151 774	-	**9 151 774**	9 928 737	**776 963**	8.5%
Rental of facilities and equipment	6 058 445	-	**6 058 445**	6 319 994	**261 549**	4.3%
Other income	56 133 037	10 587 637	**66 720 674**	4 472 542	**(62 248 132)**	93%
Interest received - investment	12 702 900	2 000 000	**14 702 900**	14 249 699	**(453 201)**	3%
Interest earned - outstanding debtors	3 688 693	-	**3 688 693**	-	**(3 688 693)**	100% Ref 1.1
Total revenue from exchange transactions	**87 734 849**	**12 587 637**	**100 322 486**	**34 970 972**	**(65 351 514)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	91 849 078	-	**91 849 078**	98 267 837	**6 418 759**	7%
Licences and Permits (Non-exchange)	8 724 596	584 533	**9 309 129**	7 631 179	**(1 677 950)**	18% Ref 1.2
Transfer revenue						
Government grants & subsidies	157 329 971	1 682 528	**159 012 499**	164 734 154	**5 721 655**	3.6%
Fines, Penalties and Forfeits	1 675 812	(1 302 000)	**373 812**	1 806 945	**1 433 133**	383% Ref.1.3
Total revenue from non-exchange transactions	**259 579 457**	**965 061**	**260 544 518**	**272 440 115**	**11 895 597**	
Total revenue	**347 314 306**	**13 552 698**	**360 867 004**	**307 411 087**	**(53 455 917)**	
Expenditure						
Employee costs	(115 747 485)	5 000 004	**(110 747 481)**	(103 292 812)	**7 454 669**	6.73%
Remuneration of councillors	(15 569 487)	-	**(15 569 487)**	(14 487 719)	**1 081 768**	6.9%
Depreciation and amortisation	(39 000 000)	-	**(39 000 000)**	(55 214 868)	**(16 214 868)**	41.5% Ref 1.4
Impairment loss/ Reversal of impairments	-	-	**-**	(1 644 816)	**(1 644 816)**	100% Ref 1.5
Finance costs	(927 451)	-	**(927 451)**	(161 394)	**766 057**	82.6% Ref 1.6
Debt Impairment	(1 656 900)	(1)	**(1 656 901)**	(18 005 959)	**(16 349 058)**	986% Ref 1.7
Contracted Services	(68 270 090)	(19 033 716)	**(87 303 806)**	(77 988 857)	**9 314 949**	10%
Transfers and Subsidies	(4 346 099)	-	**(4 346 099)**	(4 815 363)	**(469 264)**	10%
Other materials	(2 241 314)	-	**(2 241 314)**	(8 500 651)	**(6 259 337)**	279% Ref 1.8
Other expenditure	(49 069 889)	4 584 361	**(44 485 528)**	(45 850 648)	**(1 365 120)**	3%
Total expenditure	**(296 828 715)**	**(9 449 352)**	**(306 278 067)**	**(329 963 087)**	**(23 685 020)**	
Deficit before taxation	**50 485 591**	**4 103 346**	**54 588 937**	**(22 552 000)**	**(77 140 937)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**50 485 591**	**4 103 346**	**54 588 937**	**(22 552 000)**	**(77 140 937)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance and Reference
	R	R	R	R	R	

Explanations for variances:
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Ref 1.1. The revenue earned for interest on outstanding debtors has been reported in the property rates income
Ref 1.2 The decrease in licences and permits income is attributed to the reduced income received on drivers and motor vehicle licences
Ref 1.3 The increase in fines, penalties and forfeits are due to the increased issuing of traffic fines.
Ref 1.4 Due to the increase in capital expenditure, depreciation has increased accordingly
Ref 1.5 The impairment loss variance relates to the impairment on assets incurred as a result of the heavy storm damage
Ref 1.6 The finance cost saving relates to a decrease in interest incurred on finance lease obligations
Ref 1.7 Additional debt impairment had to be provided due to the current disputes with identified debtors on the valuation of their properties"
Ref 1.8 Additional costs had to be incurred realting to other materials, in order to restore the damage incurred during the floods

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Changes in Accounting Policy and Comparability

Accounting policies have been consistency applied , except where otherwise indicated below.

For the year ended 30 June 2019, the municipality has adopted the accounting framework as set out below except as excluded by the applicable directives . The details of any resulting changes in the accounting policy and comparative restatements.

The municipality changes an accounting policy only if the change:

(a) Is required by a standard of GRAP or
(b) Results in the financial statements providing reliable and more relevant information about the effects of transactions , other events or conditions on the performance or cash flow .

The following GRAP standards have been approved and effective to the municipality for the 2018/19 financial year::
GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Interests in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 21 Impairment of Non -Cash Generating Assets
GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget Information in Financial Statements
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-Generating Assets
GRAP 27 Agriculture
GRAP 31 Intangible Assets
GRAP 100 Discounted Operations
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 105 Transfer of Functions Between Entities Under Common Control
GRAP 106 Transfer of Functions Between Entities Not Under common Control
GRAP 107 Mergers

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Accounting Policies

The following GRAP standards have been issued but are not yet effective for the 2018/19 finnacial year and have not been adopted early by the municipality:
GRAP 18 Segment Reporting (effective for financial years commencing from 1 April 2020)
GRAP 108 Statutory Receivables (effective for financial years commencing from 1 April 2019)
GRAP 20 Related Party Disclosures (effective for financial years commencing from 1 April 2019)
GRAP 32 Service Concession Arrangements: Grantor (effective for financial years commencing from 1 April 2019)
GRAP 109 Accounting by Principals and Agents (effective for financial years commencing from 1 April 2019)
GRAP 34 Separate Financial Statements (effective for financial years commencing from 1 April 2020)
GRAP 35 Consolidated Financial Statements (effective for financial years commencing from 1 April 2020)
GRAP 36 Investments in Associates and Joint Ventures (effective for financial years commencing from 1 April 2020)
GRAP 37 Joint Arrangements (effective for financial years commencing from 1 April 2020)
GRAP 38 Disclosure of Interests in Other Entities (effective for financial years commencing from 1 April 2020)
GRAP 110 Living and Non-living Resources (no effective date has been determined by the Minister to date)

Impact on the municipality's financial statements once implemented:
Management has considered all of the above mentioned GRAP standards issued but not yet effective, including the new standards that are effective in the upcoming financil years, and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements for the 2018/19 financial year, are disclosed below.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality’s Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

Revenue recognition

Accounting Policy 1.13 on Revenue from Exchange Transactions and Accounting Policy 1.14 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial Assets and Liabilities

The classification of financial assets and liabilities, into categories, is based on judgment by management. Accounting Policy 1.9 on Financial Assets Classification and Accounting Policy 1.9 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities..

Impairment : Write down of Property Plant and Equipment and Inventories

Accounting Policy 1.9 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate .

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment

As described in Accounting Policy 1.5 , the municipality depreciates over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Defined benefit plan liabilities

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

As described in Accounting Policy 1.20, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 13 and 27 to the Annual Financial Statements.

Allowance for doubtful debts

For trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Revenue Recognition

Accounting Policy 1.13 on Revenue from Exchange Transactions and Accounting Policy 1.14 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgment by management. Accounting Policy 1.9 on Financial Assets Classification and Accounting Policy 1.9 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All the amounts are rounded off to the nearest rand .

Accounting Policies

1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Housing development fund

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment Any remaining inspection costs from the previous inspection are derecognised.

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10-30 years
Street lighting	Straight line	35 years
Machinery and equipment	Straight line	4-15 years
Furniture and office equipment	Straight line	5-15 years
Motor vehicles	Straight line	7-10 years
Computer equipment	Straight line	5 years
Traffic signs	Straight line	15 years
Landfill Site	Straight line	55 years

1.5 Property, plant and equipment (continued)

Community Assets	Straight line	10-30 years
Other property, plant and equipment	Straight line	10-30 years
Cemetries	Straight line	30 years
Transport assets	Straight line	7-15 years
Dwellings	Straight line	10-30 Years
Non - residential dwellings	Straight line	10-30 years
Leased Motor vehicles	Straight line	3 years
Electricity	Straight line	20-35 years
Stormwater	Straight line	30-50 years
Roads municipal ashphalt surface	Straight line	20 years
Roads municipal asphalt basis	Straight line	50 years
Roads municipal concrete surface	Straight line	30 years
Roads municipal concrete basis	Straight line	50 years
Roads municipal gravel surface	Straight line	10 years
Kerb and channels	Straight line	50 years
Retaining walls	Straight line	60 years
Pedestrian footpaths	Straight line	30 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

1.6 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent Measurement

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

1.7 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent Measurement - Cost Model

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	7 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.8 Investment property (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses. Heritage assets are not depreciated.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Accounting Policies

1.8 Investment property (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

1.9 Property, plant and equipment (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.9 Property, plant and equipment (continued)

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition
Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument. The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist: and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methods and assumptions
The fair values of financial instruments are determined as follows:
The fair values of quoted investments are based on current bid prices.
If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

1.9 Property, plant and equipment (continued)

Financial Assets - Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard.

Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

(a) derivatives:
(b) combined instruments that are designated at fair value
(c) instruments held for trading.
(d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition: or
(e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Class	**Category**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities measured at fair value,or amortised cost or at cost.

Financial liabilities that are measured at fair value financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term: derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.9 Property, plant and equipment (continued)

Initial recognition

Financial Assets :

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), and loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial asset at amortised cost.

Financial Assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with surplus and deficit recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Initial measurement of financial liabilities

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities measured at amortised cost .

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Property, plant and equipment (continued)

Impairment of financial assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Accounts receivables encompasses long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as recoverable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

Impairment of Financial Assets measured at cost.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Derecognition

1.9 Property, plant and equipment (continued)

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability..

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.9 Property, plant and equipment (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Property, plant and equipment (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Property, plant and equipment (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Risk Management of Financial assets and liabilities

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

Credit Risk:

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk:

-A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
-Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
-A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 38 to the annual financial statements.

1.11 Inventories

Initial recognition

Inventories comprise of consumable stores. Inventories are recognised at the weighted average method. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and net realisable value.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

1.13 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

General

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable. .

1.13 Revenue from exchange transactions (continued)

Service Charges

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Prepaid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale

Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licenses and permits.

Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Sale of Goods

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

1.14 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.14 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Revenue from recovery of unauthorised, Irregular, fruitless and wastefull expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

1.15 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

The municipality treats its provision for leave pay as an accrual. The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

1.15 Provisions and contingencies (continued)

Provision for staff leave :

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position.

Provision for refuse site rehabilitation :

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined in terms of the Municipal Landfill Closure Costing Module and calculated annualy have been applied

1.16 Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of twelve months or less or more and are subject to an insignificant risk of change in value unless the purpose and nature of such investments are for capital appreciation purposes and not held for operational activities as deemed by management .

Cash and cash equivalents in the cash flow statement comprise cash on hand, deposits held on call with banks.

Bank overdrafts are recorded at the current value of the utilisation of approved facilities from the Municipality's bankers. Finance charges on bank overdrafts are expensed as incurred.

1.17 Unauthorised expenditure

Unauthorised expenditure means:Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Employee benefits

Retirement Benefits :

The municipality provides retirement benefits for its employees. Contributions are made to the Natal Joint Municipal Pension Fund to fund the obligations for the payment of retirement benefits.

Post- retirement health care benefits :

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.20 Employee benefits (continued)

Long-service allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance

Defined Contributions Plans

The municipality provides retirement benefits for its employees. Contributions are made to the Natal Joint Municipal Pension Fund to fund the obligations for the payment of retirement benefits.

Contributions are charged as an expense in the Statement of Financial Performance in the year that they become payable.
The funds are actuarially valued every three years using the discounted cash flow method.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.20 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.20 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.21 Deposits

Deposits received by the municipality are in terms of the approved tariff of charges by Council. These mainly relate to the use of community facilities and verge deposits, amongst others

Unidentified Direct Deposits relate to deposits made by the public into the municipality's bank account, which due to a lack of information made during the deposit process, cannot be traced to the relevant debtor. A register is maintained for all Unidentified Direct Deposits. Should all attempts prove fruitless in the identification of the relevant debtor and the amount remains unclaimed by the debtor after a time lapse of two years has occurred, these values are transferred to accumulated surplus.

1.22 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating and Finance leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life equal to the contract term. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance.

1.22 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.23 Budget information

The annual budget figures have been prepared in accordance with the GRAP 24 standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality. These figures are those approved by the Council at the beginning and during the year. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2017 to 30 June 2018.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.24 Prior year adjustments

Restatements are effected to prior period comparatives resulting in the reclassification of prior period disclosure when the presentation or classification of items in the annual financial statements is amended. The nature and reason for the reclassification are disclosed.

1.25 Tax

Value added taxation

The municipality is registered with SARS for VAT on the cash basis in accordance with Section 15(2)(a) of the Value Added Tax Act, No. 81 of 1991.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Capital commitments

Items are classified as commitments where the municipality commits itself to the future transactions that will normally result in the outflow of resources.

Accounting Policies

1.28 Capital commitments (continued)

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

-Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by the specific standard of GRAP.

-Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

-Contracts that are entered into before the reporting date , but goods and services have yet been received are disclosed in the disclosure notes to the financial statements.

1.29 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Annual Financial Statements

	2019 R	2018 R

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 250	5 250
Short-term deposits	422 969	424 069
Bank balance	1 104 179	6 011 603
Other cash and cash equivalents	202 839 682	193 656 258
	204 372 080	**200 097 180**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA Bank - Investment - 92-3600-6170	17 921 386	16 939 958	16 002 207	17 921 386	16 939 958	16 002 207
ABSA Bank - Investment - 92-0488-0592	209	426	695	269	426	695
First National Bank - Investment - 62-2251-55391	17 988 484	16 920 313	15 902 461	17 988 484	16 920 313	15 902 461
First National Bank - Investment - 71-0938-31661	2 591 155	2 425 208	2 219 684	2 590 136	2 425 208	2 219 684
Standard Bank - Investment - 5876211 6/007	2 778 189	4 778 189	12 778 189	2 778 187	4 778 189	12 778 189
Standard Bank - Investment - 5876211 6/008	327 200	327 200	327 200	327 200	327 200	327 200
Standard Bank - Investment - 5876211 6/010	199 780	3 014 369	7 817 603	199 779	3 014 369	7 817 603
Standard Bank - Investment - 5876211 6/014	1 198 103	1 198 103	1 198 103	1 198 103	1 198 103	1 198 103
Standard Bank - Investment - 5876211 6/015	26 120 843	23 404 704	20 679 195	26 120 843	23 404 704	20 679 195
Standard Bank - Investment - 5876211 6/021	25 131 651	23 260 606	-	25 131 651	23 260 606	-
Standard Bank - Investment - 5876211 6/020	-	-	21 438 346	-	-	21 438 346
Standard Bank - Investment - 54417996	73 803	71 282	68 773	73 803	71 282	68 773
Nedbank - Investment - 7881 0177 59/94	47 363 109	44 773 563	22 267 818	47 363 109	44 773 563	22 267 818
Standard Bank - Current Account - Short term deposit - 052 854 329	421 211	424 069	424 547	421 211	424 069	424 547
Nedbank - Investment - 7881 0177 59/11	-	-	21 177 451	-	-	21 177 451
Nedbank - Investment - 7881 0177 59/116	-	-	20 651 260	-	-	20 651 260
Nedbank - Investment - 7881 0177 59/117	-	-	31 583 484	-	-	31 583 484
Nedbank - Investment - 7881 0177 59/121	-	22 295 292	-	-	22 295 262	-
Nedbank - Investment - 7881 0177 59/122	-	34 251 241	-	-	34 247 179	-
Nedbank - Investment - 7881 0177 59/125	24 111 550	-	-	24 111 550	-	-

2. Cash and cash equivalents (continued)

Nedbank - Investment - 7881 0177 59/126	37 034 165	-	-	37 034 165	-	-
Standard Bank - Cheque Account - 052 791 688 - Primary Bank Account	818 762	5 716 922	11 747 628	1 106 954	6 011 498	11 190 274
Cash on Hand	5 250	5 250	5 250	5 250	5 250	5 250
Total	**204 084 850**	**199 806 695**	**206 289 894**	**204 372 080**	**200 097 179**	**205 732 540**

3. Receivables from exchange transactions

	2019 R	2018 R
Gross balances		
Salary debtor	1 278 312	-
Refuse	6 108 199	4 916 504
Sundry debtors	15 311 160	13 527 137
	22 697 671	**18 443 641**
Less: Allowance for impairment		
Refuse	(3 326 753)	(1 548 409)
Sundry debtors	(14 514 159)	(2 654 225)
	(17 840 912)	**(4 202 634)**
Net balance		
Salary debtor	1 278 312	-
Refuse	2 781 446	3 368 095
Sundries	797 001	10 872 912
	4 856 759	**14 241 007**
Salary Debtor		
Current (0 -30 days)	1 278 312	-
Refuse		
Current (0 -30 days)	545 079	488 406
31 - 60 days	278 558	235 154
61 - 90 days	180 089	154 606
91 - 120 days	174 864	120 589
121 - 365 days	4 929 609	3 917 749
	6 108 199	**4 916 504**
Sundries		
Current (0 -30 days)	1 515 400	836 845
31 - 60 days	420 673	345 663
61 - 90 days	250 702	280 899
91 - 120 days	244 197	311 006
121 - 365 days	12 880 188	11 752 724
	15 311 160	**13 527 137**

4. Receivables from non-exchange transactions

	2019 R	2018 R
Gross Debtors		
Fines	6 525 825	4 875 790
Consumer debtors - Rates	72 697 400	60 413 811
	79 223 225	**65 289 601**

	2019 R	2018 R

4. Receivables from non-exchange transactions (continued)

Impairment

Traffic fine impairment	(2 139 850)	(1 420 850)
Property Rates impairrment	(12 018 071)	(9 639 180)
	(14 157 921)	**(11 060 030)**

Net Debtors		
Traffic Fines	4 385 975	3 454 940
Property Rates	60 679 329	50 774 631
	65 065 304	**54 229 571**

Traffic Fines

Current (0-30 days)	172 700	120 500
31-60 days	219 900	297 500
61-90 days	209 850	262 886
91-120 days	149 450	149 300
121-365 days	5 773 925	4 045 604
	6 525 825	**4 875 790**

Property Rates

Current (0-30 days)	4 241 074	6 854 570
31-60 days	1 960 990	1 720 839
61-90 days	1 260 684	1 102 586
91-120 days	1 016 383	870 170
121-365 days	64 218 269	49 865 646
	72 697 400	**60 413 811**

5. VAT receivable

VAT	11 788 672	12 192 264

VAT is payable on the cash basis. Once payment is received from debtors , VAT is paid over to SARS.

6. Operating Leases

Operating leases - The municipality as a lessor:

Current assets	174 806	69 012

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases, the following assets have been recognised:

Balance at beginning of the year	69 012	415 903
Operating lease revenue recorded	(1 611 960)	(1 564 947)
Operating lease revenue effected	1 717 754	1 218 056
	174 806	**69 012**

	2019 R	2018 R

6. Operating Leases (continued)

At the reporting date, the municipality had outstanding receipts in terms of operating leases, which will accrue as follows:		
Receivable within 1 year	1 710 359	1 600 739
Receivable within 2-5 years	6 500 417	9 269 690
Receivable after 5 years	2 597 641	260 293
	10 808 417	**11 130 722**

Included in the above mentioned operating lease receivables is the following class of assets:

Land and building	10 808 417	11 130 722

7. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	12 081 209	(2 257 232)	9 823 977	12 081 209	(1 849 267)	10 231 942

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	10 231 942	(407 965)	9 823 977

Reconciliation of investment property - 2018

	Opening balance	Transfers	Depreciation	Total
Investment property	26 486 746	(17 634 035)	1 379 231	10 231 942

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Amounts recognised in surplus or deficit

From Investment property that generated rental revenue		
Repairs and maintenance	270 555	-

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality. There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

8. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	56 704 419	-	56 704 419	56 704 419	-	56 704 419
Machinery and equipment	17 740 169	(11 670 162)	6 070 007	16 101 352	(9 079 190)	7 022 162
Furniture and office equipment	10 737 160	(6 770 588)	3 966 572	9 761 032	(5 323 547)	4 437 485
Motor vehicles	32 701 407	(21 238 359)	11 463 048	28 769 138	(17 583 050)	11 186 088
Computer equipment	7 499 378	(4 049 294)	3 450 084	6 937 769	(2 538 534)	4 399 235
Infrastructure	589 570 125	(163 832 767)	425 737 358	563 820 884	(133 982 726)	429 838 158
Community	295 775 005	(91 306 339)	204 468 666	291 345 783	(76 190 946)	215 154 837
Solid waste disposal	9 457 533	(3 614 128)	5 843 405	9 216 033	(3 329 736)	5 886 297
Total	**1 020 185 196**	**(302 481 637)**	**717 703 559**	**982 656 410**	**(248 027 729)**	**734 628 681**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	56 704 419	-	-	-	56 704 419
Machinery and equipment	7 022 162	1 638 817	(2 577 328)	(13 644)	6 070 007
Furniture and office equipment	4 437 485	537 548	(963 136)	(45 325)	3 966 572
Motor vehicles	11 186 088	3 932 269	(3 616 404)	(38 905)	11 463 048
Computer equipment	4 399 235	561 609	(1 487 722)	(23 038)	3 450 084
Infrastructure	429 838 158	26 187 821	(30 284 286)	(4 335)	425 737 358
Community	215 154 837	5 586 508	(14 753 110)	(1 519 569)	204 468 666
Solid waste disposal	5 886 297	241 500	(284 392)	-	5 843 405
	734 628 681	**38 686 072**	**(53 966 378)**	**(1 644 816)**	**717 703 559**

	2019 R	2018 R

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Restated Opening balance	Additions	Disposals	Depreciation	Total
Land	56 704 419	-	-	-	56 704 419
Machinery and equipment	9 599 205	276 467	(66 036)	(2 787 474)	7 022 162
Furniture and office equipment	4 829 555	572 731	(13 467)	(951 334)	4 437 485
Motor vehicles	11 700 926	1 526 725	(23 716)	(2 017 847)	11 186 088
Computer equipment	3 210 681	2 004 893	(9 011)	(807 328)	4 399 235
Infrastructure	405 685 293	44 622 128	-	(20 469 263)	429 838 158
Community	222 625 620	6 779 621	(336 080)	(13 914 324)	215 154 837
Solid waste disposal	6 172 488	-	-	(286 191)	5 886 297
	720 528 187	**55 782 565**	**(448 310)**	**(41 233 761)**	**734 628 681**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	25 944 784	36 958 164
General expenses	995 760	-
	26 940 544	**36 958 164**

Reconciliation of Work In Progress 2019	**Included within Infrastructure**	**Included within Community**	**Total**
Opening balance	68 834 226	7 271 062	76 105 288
Additions/capital expenditure	23 931 312	5 053 154	28 984 466
Transfer to completed assets	(42 082 280)	(3 187 243)	(45 269 523)
	50 683 258	**9 136 973**	**59 820 231**

Reconciliation of Work in Progress 2018	**Included within Infrastructure**	**Included within Community**	**Total**
Opening balance	96 735 910	16 527 446	113 263 356
Additions/capital expenditure	44 803 378	6 779 621	51 582 999
Transfer to completed assets	(72 705 062)	(16 036 005)	(88 741 067)
	68 834 226	**7 271 062**	**76 105 288**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

	2019	2018
	R	R

9. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 066 512	(1 445 072)	1 621 440	2 399 965	(786 723)	1 613 242

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 613 242	666 547	(658 349)	1 621 440

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	986 816	862 179	(235 753)	1 613 242

Pledged as security

No intangible assets pledged as security:

10. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Monument and Antiquities	261 011	-	261 011	261 011	-	261 011

Reconciliation of heritage assets 2019

	Opening balance	Total
Historical Monument and Antiquities	261 011	261 011

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical Monument	261 011	261 011

Pledged as security

No heritage assets were pledged as security.

	2019 R	2018 R

11. Payables from exchange transactions

Trade payables	25 985 864	22 528 263
Payments received in advance	5 686 491	5 321 746
Accrued leave pay	10 447 880	9 024 961
Retention held	12 203 183	13 334 791
Consumer Deposits	2 288 413	2 073 936
Unallocated deposits	1 257 836	564 618
	57 869 667	**52 848 315**

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial policies in place to ensure that all payables are paid within the credit timeframe.

Deposits are paid by members of the community on application for the hire of community halls and facilities, as stipulated in the tariff of charges. The deposits are repaid when the use of the community halls/facilities are completed, and an inspection has been executed to ensure that the facilities hired have been restored to its original condition, and no damage to property has occurred. In cases where the condition of the facilities have not been restored to its original condition or damage to the property is evident, Council can utilize the deposit as payment to rectify the facilities to its original condition or to restore any damage to the property.

No interest is paid on consumer deposits held.

Retention refers to monies retained by the municipality on construction work completed by the various suppliers throughout the duration of their contract. These monies are released to the upon progressive completion of their respective undertakings.

Leave accrual is due to staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions and is capped at 48 days as per the collective agreement.. The provision is an estimate of the amount due at the reporting date.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	1 291 798
Integrated Energy Efficiency Grant	7 787 932	-
Scottburgh CBD Rehab	-	5 270
Libraries grant	1	870 087
Spatial Development Framework Grant	1 000 000	-
	8 787 933	**2 167 155**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in multiple ring-fenced investment until utilised.

13. Finance lease obligation

	2019 R	2018 R
Minimum lease payments due		
- within one year	926 888	1 859 649
- in second to fifth year inclusive	-	917 459
	926 888	2 777 108
less: future finance charges	(25 645)	(188 048)
Present value of minimum lease payments	**901 243**	**2 589 060**
Present value of minimum lease payments due		
- within one year	901 243	1 696 535
- in second to fifth year inclusive	-	892 525
	901 243	**2 589 060**
Non-current liabilities	-	892 525
Current liabilities	901 243	1 696 536
	901 243	**2 589 061**

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years. The effective interest rate on Finance Leases is 9%.

The risks and rewards of ownership in respect of the Property, Plant and Equipment will transfer to the municipality at the conclusion of the agreement.

The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

Finance lease payments represent lease payments by the municipality for one Vehicle and three Equipment :

Toyota FORTUNER
2 x Motor Grader

The municipality has finance lease agreements for the following significant classes of assets:

	2019	2018
(i) Vehicles- Fortuner		
Installments are payable monthly in arrears	97 867	206 354
Average period	10	21
Average effective interest rate, based on prime	9,00 %	9,00 %
Average monthly installment	9 787	9 826
(ii) Equipment- 2X Grader		
Installments are payable monthly in arrears	829 021	2 487 063
Average period	6	18
Average effective interest rate, based on prime	9,00 %	9,00 %
Average monthly installment	138 170	138 170
Equipment - TLB		
Installments are payable monthly in arrears	-	83 691
Average period	-	5
Average effective interest rate, based on prime	-	9
Average monthly installment	-	16 738

14. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2019 R	2018 R

14. Employee benefit obligations (continued)

Carrying value

Medical Aid	(16 383 557)	(16 183 760)
Long Service	(4 516 624)	(4 022 751)
	(20 900 181)	**(20 206 511)**

Non-current liabilities	(19 481 801)	(18 836 985)
Current liabilities	(1 418 380)	(1 369 526)
	(20 900 181)	**(20 206 511)**

Post Retirement Medical Aid Obligation:
The fair value of plan assets includes:

Post Employment Health Care Benefit Liability	16 383 557	16 183 760
Subtotal	16 383 557	16 183 760
Less: Transfer to Current Provisions	(804 410)	(765 807)
	15 579 147	**15 417 953**

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019 by ARCH Actuarial Consultants, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other post retirement benefits are provided by the municipality.

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service members	166	152
Continuation members	19	19
	185	**171**

The liability in respect of past service has been estimated to be as:

In-service members	8 795 571	9 706 162
Continuation members	7 587 986	6 477 598
	16 383 557	**16 183 760**

The municipality makes monthly contributions for health care

- Bonitas

- Key Health

- LA Health

- Samwumed

Notes to the Annual Financial Statements

	2019 R	2018 R

14. Employee benefit obligations (continued)

- Hosmed

The future service cost for the ensuing year is established to be R 783,027 whereas the interest-cost for the next year is estimated to be R 1,471,098 (2018: R 822,121 and R 1,500,325 respectively)

Key assumptions used

Assumptions used at the reporting date:

	2019	2018
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	9,20%	9,49 %
Health Care Cost Inflation Rate	6,72%	7,33 %
Net Effective Discount Rate	2,32%	2,01 %
Expected Retirement Age - Males and Females	62	63

	2019	2018
The amounts recognised in the Statement of Financial Position are as follows:		
Present Value of Fund Obligations	16 383 557	16 183 760

	2019	2018
The amount recognised in the Statement of Financial Performance under employee related costs are as follows:		
Current service cost	822 121	755 652
Interest cost	1 500 325	1 426 996
Actuarial (gain)/loss recognised	(1 461 559)	(594 119)
	860 887	**1 588 529**

	2019	2018
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	16 183 760	15 299 003
Current service cost	822 121	755 562
Interest cost	1 500 325	1 426 996
Benefits paid	(661 090)	(703 682)
Recognised acturial (gain)/loss	(1 461 559)	(594 119)
	16 383 557	**16 183 760**

The effect of the movement in the assumed rate of health care:

	2019	2018
Increase		
Effect on the defined benefit obligation	199 797	884 757

The history of experienced adjustments are as follows:	2019	2018	2017	2016	2015
Present value of Defined Benefit Obligation	16 383 557	16 183 760	15 299 003	15 272 799	15 464 000

Defined contribution plan - Natal Joint Municipal Pension Fund

14. Employee benefit obligations (continued)

Umdoni Municipality makes provision for post-retirement benefits to eligible employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a triennual, biennual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.

(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.

(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

14. Employee benefit obligations (continued)

DEFINED BENEFIT SCHEMES

Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2018 by Argen Actuarial Solution.

The actuarial valuation performed as at 31 March 2018 revealed that the fund had a shortfall of R 160 million (31 March 2015: shortfall of R 148 million) , with a funding level of 96.2% (31 March 2015: 96,1%). The contribution rate, including the surcharges below, paid by the members (7%) and municipalities (18,37%) should be sufficient to eradicate the shortfall in the fund. However, the basic contribution payable is 0.8% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 21.65% of pensionable emoluments, of which 1,65% is payable by members and 20% is payable by the local authority.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2018 by Argen Actuarial Solutions.

The actuarial valuation performed as at 31 March 2018 revealed that the fund had a shortfall of R Nil (31 March 2015 shortfall of R Nil), with a funding level of 100,0% (31 March 2015: 100%). The contribution rate paid by the members (9,25%) and municipalities (21,63%) is 0.32% (31 March 2015 : 0.22%) less than the required contribution rate for future service and will be reviewed at the next valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2015: 9,5%) of pensionable salaries.

This surcharge is payable until 31 July 2020. The surcharge to local authorities amounts to 9.50% (31 March 2015: 9.50%). The "Scheme to eliminate deficiency" in terms of Section 18 of the Pension Funds Act was implemented with effect from 1 August 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund.

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2015.

The valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R 2,476,156,000 (30 June 2011: R1,483,786,381). The contribution rate paid by the members (13.75%) and the municipalities (15%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2015.

Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2018 by Argen Actuaries.

Notes to the Annual Financial Statements

	2019 R	2018 R

14. Employee benefit obligations (continued)

The actuarial valuation performed as at 31 March 2018 revealed that the market value of the fund was R 4,105,682 million (31 March 2015: R 2,636,064 million). The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2018.

None of the above mentioned plans are State Plans

Long Service Awards

Provision for long service awards	4 516 624	4 022 751
Subtotal	4 516 624	4 022 751
Less: Transfer of current provisions	(678 933)	(603 719)
	3 837 691	**3 419 032**

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality (which includes their uninterrupted service with the former local authorities amalgamated in December 2000 to become Umdoni Municipality). The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2019 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019 by Arch Actuarial Consultants, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the municipality.

The Long Service Awards plans are defined benefit plans. As at year end, 369 employees were eligible for Long Service Awards.

The future service cost for the ensuing year is estimated to be R 509,469 whereas the interest-cost for the next year is estimated to be R 340,561

The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount rate	8,14%	8,47 %
Expected rate of salary increase	5,54%	6,09 %
Net effective discount rate	2,46%	2,24 %

The amounts recognised in the Statement of Financial Position are as		
Present value of fund obligation	4 516 624	4 022 751

The amount recognised in the Statement of Financial Performance under employee related costs are as follows:		
Current service cost	370 708	357 208
Interest cost	315 679	292 968
Actuarial loss/(gain)	504 155	60 794
	1 190 542	**710 970**

	2019 R	2018 R

14. Employee benefit obligations (continued)

The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	4 022 751	3 591 009
Current service cost	370 708	357 208
Interest cost	315 679	292 968
Benefits paid	(696 669)	(279 228)
Acturial (gain)/loss recognised	504 155	60 794
	4 516 624	**4 022 751**

The effect of a 1% movement in the assumed rate of salary inflation is as follows:		
Increase		
Effect on the aggregate of the current service and interest cost	676 900	640 500
Decrease		
Effect on the aggregate of the current service and interest cost	696 800	660 700

The history of experienced adjustments are as follows:	2019	2018	2017	2016	2015
	(4 516 624)	(4 022 751)	(3 591 009)	(2 954 588)	(2 919 000)

15. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	12 559 126	210 121	12 769 247

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	12 263 574	295 552	12 559 126

Environmental rehabilitation provision

In terms of the licencing of the landfill refuse sites, Council will incur rehabilitation costs of R12,769,246.84 determined at present value, to restore the sites. Provision has been made for an amount based on the present value of cost.

The costs of rehabilitating the refuse site have been estimated by the Council's external consulting engineers,Mashalaba and Associates Consulting. Council is required to submit a rehabilitation plan to the Department of Water Affairs six months prior to closing the site in 2019.

Notes to the Annual Financial Statements

	2019 R	2018 R

16. Sale of goods

	2019 R	2018 R
Advertising	38 682	125 995
Camping fees	359 075	436 408
Tender documents	75 869	394 788
Cemetery and Burial	46 588	44 144
Legal fees	255 525	235 197
Building Plan fees	533 335	497 859
Membership	209	22
Photocopies and faxes	71 710	64 914
Application for land usage	21 704	13 667
Removal of restriction	18 883	74 677
Clearance certificates	175 336	177 078
Demolition application fees	-	1 529
Parking fees	277 644	301 013
Encroachment fees	3 156	7 618
Town planning and servitudes	5 227	8 177
Subdivision	9 789	9 463
Staff housing rentals	144 695	140 184
Cleaning and Removal	214 554	1 003
	2 251 981	**2 533 736**

17. Service charges

	2019 R	2018 R
Sale of electricity	558 663	611 139
Solid waste	90 502	98 866
Refuse removal	9 279 572	8 724 414
	9 928 737	**9 434 419**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

18. Rental of facilities and equipment

	2019 R	2018 R
Premises		
Premises	6 319 994	5 640 909

19. Rendering of services

	2019 R	2018 R
Skills development levy refund	198 406	200 774
Settlement discount	24 870	(1 776)
Commissioned earned	72 586	77 450
Special consents	36 355	51 564
Scholar patrol income	1 745 127	1 019 642
Inspections	141 139	295 382
Breakages and Losses	2 078	3 519
	2 220 561	**1 646 555**

20. Investment revenue

	2019 R	2018 R
Interest revenue		
Bank	14 249 699	14 285 877

Notes to the Annual Financial Statements

	2019 R	2018 R

21. Property rates

Property rates billed

	2019 R	2018 R
Residential	49 007 381	53 130 786
Business, Commercial and Industrial	31 576 980	25 573 300
Public Benefit and Public Service Infrastructure	1 345 743	861 342
Formal and Informal Settlements	21 635	29 392
Small holdings and farms	2 831 751	2 629 710
Vacant Land	7 580 264	7 640 097
	92 363 754	89 864 627
Property rates - penalties imposed	5 904 083	5 788 543
	98 267 837	**95 653 170**

Randages in terms of the Municipal Property Rates Act

	2019	2018
Residential	0,00994	0,00944
Commercial,Business and Industrial	0,01330	0,01330
Agricultural Property	0,00249	0,00249
Public Service Infrastructure, Public Benefit Organisations	0,00249	0,00249
Vacant Industrial, Commercial and Other	0,02053	0,02053

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2022.

Rebates on these rates are allowed on the following basis:

	2019	2018
Special residential (excluding land)	75 000	75 000
Vacant property	15 000	15 000
Disabled persons, pensioners, indigent persons as defined in the indigent policy (inclusive of the R75,000 above)	370 000	370 000
	460 000	**460 000**

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

22. Licences and permits (non-exchange)

	2019 R	2018 R
Boat	4 700	9 658
Trading licence	6 733	13 354
Drivers and Motor Vehicle Licences	7 593 636	8 259 483
Taxi Rank Permits	26 110	50 919
	7 631 179	**8 333 414**

	2019 R	2018 R

23. Government grants and subsidies

Operating grants

Equitable share	118 562 798	113 579 430
Finance Management Grant	4 315 000	4 245 000
Rural Development Grant	-	133 741
Provincial Library Services Grant	9 409 086	5 270 913
Municipal Demarcation Grant	-	8 280 000
Provincial Sport and Recreation	50 000	76 435
Expanded Public Works Programme	1 219 000	1 000 000
Municipal Systems Support Grant	1 055 000	-
	134 610 884	**132 585 519**

Capital grants

Municipal Infrastructure Grant	30 118 000	33 831 758
Scottburgh CBD Rehabiltation	5 270	16 556 134
	30 123 270	**50 387 892**
	164 734 154	**182 973 411**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	52 383 424	77 393 981
Unconditional grants received	118 562 798	113 579 430
	170 946 222	**190 973 411**

Disaster Recovery Grant(KZN Cogta)

Balance unspent at beginning of year	-	475 430
Conditions met - transferred to revenue	-	(475 430)
	-	**-**

Conditions have been met . (see note 12).

Emergency Relief (KZN Cogta)

Balance unspent at beginning of year	-	133 741
Conditions met - transferred to revenue	-	(133 741)
	-	**-**

Conditions have been met (see note 12).

Municipal Infrastructure Grant

Balance unspent at beginning of year	1 291 798	3 962 556
Current-year receipts	30 118 000	31 161 000
Conditions met - transferred to revenue	(30 118 000)	(33 831 758)
Paid to National Treasury - Rollover not approved	(1 291 798)	-
	-	**1 291 798**

Conditions have not been met - remain liabilities (see note 12).

Shayamoya Sportsfield

Notes to the Annual Financial Statements

	2019 R	2018 R

23. Government grants and subsidies (continued)

	2019 R	2018 R
Balance unspent at beginning of year	-	76 435
Conditions met - transferred to revenue	-	(76 435)
	-	**-**

Conditions have been met . (see note 12).

Integrated Energy Efficiency Grant

	2019 R	2018 R
Current-year receipts	14 000 000	8 000 000
Conditions met - transferred to revenue	(6 212 068)	(8 000 000)
	7 787 932	**-**

Conditions have been met .(see note 12).

Scottburgh CBD Rehabilitation

	2019 R	2018 R
Balance unspent at beginning of year	5 270	16 561 404
Conditions met - transferred to revenue	(5 270)	(16 556 134)
	-	**5 270**

Conditions still to be met - remain liabilities (see note 12).

Libraries grant

	2019 R	2018 R
Balance unspent at beginning of year	870 087	-
Current-year receipts	8 539 000	6 141 000
Conditions met - transferred to revenue	(9 409 086)	(5 270 913)
	1	**870 087**

Conditions still to be met - remain liabilities (see note 12).

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Finance Management Grant

	2019 R	2018 R
Current-year receipts	4 315 000	4 245 000
Conditions met - transferred to revenue	(4 315 000)	(4 245 000)
	-	**-**

Conditions have been met (see note 12).

Demarcation Grant

	2019 R	2018 R
Current-year receipts	-	8 280 000
Conditions met - transferred to revenue	-	(8 280 000)
	-	**-**

Conditions have been met (see note 12).

Expanded Public Works Programme

	2019 R	2018 R
Current-year receipts	1 219 000	1 000 000
Conditions met - transferred to revenue	(1 219 000)	(1 000 000)

Notes to the Annual Financial Statements

	2019 R	2018 R

23. Government grants and subsidies (continued)

	-	-

Conditions have been met (see note 12).

Maintenance and Management of Sportfield

Current-year receipts	50 000	-
Conditions met - transferred to revenue	(50 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Spatial Development Grant

Current-year receipts	1 000 000	-

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Municipal Systems Support Grant

Current-year receipts	1 055 000	-
Conditions met - transferred to revenue	(1 055 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

24. Fines, Penalties and Forfeits

Overdue Books Fines	9 776	32 185
Municipal Traffic Fines	1 677 650	1 475 905
Service charges penalties	119 519	14 041
	1 806 945	**1 522 131**

Notes to the Annual Financial Statements

	2019 R	2018 R

25. Employee related costs

	2019 R	2018 R
Basic salaries	73 221 588	61 035 053
13th cheque	4 153 973	3 401 060
Medical aid contributions	4 125 546	3 792 514
Unemployment Insurance Fund	700 330	581 405
Contribution for Leave Pay	2 488 503	2 369 531
Pension fund contributions	10 122 817	8 834 767
Post retirement medical aid contributions	2 051 429	2 299 410
Staff insurance	2 750	2 839
Overtime payments	4 972 128	3 175 062
Non Pensionable Allowance	612 907	644 000
Shift allowance	42 667	33 889
Rental and Housing Benefits	236 306	183 218
Rental Subsidy	23 760	23 350
Bargaining council levy	46 439	41 450
Cellphone allowance	228 819	225 941
Standby allowance	262 850	233 601
	103 292 812	**86 877 090**

Remuneration of the Municipal Manager : Mr XS Luthuli (July 2017- August 2017)

	2019 R	2018 R
Annual Remuneration	-	98 607
Cellphone allowance	-	1 906
Performance Bonus	-	142 186
Leave paid	-	173 765
	-	**416 464**

Remuneration of the Municipal Manager: Mr BG Nyuswa (December 2017- March 2018)

	2019 R	2018 R
Annual remuneration	-	283 133
Allowance	-	18 121
	-	**301 254**

Remuneration of the Acting Municipal Manager: MR BA Xulu (March 2018- Sept 2019)

	2019 R	2018 R
Annual remuneration	283 133	-
Allowance	-	88 263
Leave paid	49 830	-
	332 963	**88 263**

Remuneration of the Municipal Manager: Dr V Tsako (Nov 2018- June 2019)

	2019 R	2018 R
Annual remuneration	654 623	-
Cellphone allowance	13 912	-
Backpay	4 219	-
	672 754	**-**

Remuneration of the Chief Financial Officer : Ms T Mhlongo (July 2017 - June 2019)

	2019 R	2018 R
Annual remuneration	805 931	760 038
Cellphone Allowance	6 600	6 600
Performance bonus	54 278	27 354
Travelling allowance	127 200	127 200
Backpay	20 354	17 397
Acting allowance	3 035	-

Notes to the Annual Financial Statements

	2019 R	2018 R

25. Employee related costs (continued)

	1 017 398	**938 589**

Remuneration of the General Manager : Technical Services: Mr S Mngadi (July 2017 - Feb 2019)		
Annual remuneration	455 741	659 047
Cellphone allowance	-	7 920
Performance bonus	5 280	52 920
Travelling allowance	111 120	158 340
Leave Pay	168 653	-
Backpay	18 752	16 027
	759 546	**894 254**

Remuneration of the Acting Manager:Techical Services Mr BT Khumalo (July 2018-February 2019)		
Annual remuneration	411 208	-
Leave pay	39 475	-
	450 683	**-**

Remuneration of the General Manager : Corporate Services Mrs N Ncame (July 2017 - June 2019)		
Annual remuneration	752 027	604 421
Cellphone allowance	6 600	6 600
Travelling allowance	63 600	63 600
Backpay	600 786	13 098
	1 423 013	**687 719**

Remuneration of the Acting Manager:Technical Services Mr MN Manyathi (Mar 2019-June 2019)		
Annual remuneration	202 854	-
Backpay	67 618	-
	270 472	**-**

Remuneration of the General Manager : Planning and Development : Mrs C Vezi (July 2017- Nov 2017)		
Annual remuneration	-	354 930
Cellphone allowance	-	3 600
Performance bonus	-	62 969
Leave paid	-	6 815
	-	**428 314**

Remuneration of the Acting General Manager: Planning and Development Mr MCI Mzotho (Nov 2018-June 2019)		
Annual remuneration	531 321	-
Cellphone allowance	4 320	-
Backpay	3 132	-
	538 773	**-**

Remuneration of the General Manager : Community Services: Mrs L Shange (July 2017-Jan 2019)		
Annual remuneration	482 878	818 295
Cellphone allowance	2 640	7 920
Performance bonus	-	75 684
Leave Pay	108 501	-

Notes to the Annual Financial Statements

	2019 R	2018 R

25. Employee related costs (continued)

Acting allowance	-	64 346
Backpay	15 018	16 045
	609 037	**982 290**

Remuneration of the Acting General Manager: Corporate Services (January 2018 - January 2019)

Annual remuneration	167 815	-
Backpay	40 132	-
	207 947	**-**

Remuneration of the Acting Manager: Corporate Services Miss DP Nene (Mar 2019 - June 2019)

Annual remuneration	202 854	-
Backpay	67 618	-
	270 472	**-**

26. Remuneration of councillors

Cllr WT Dube (Mayor)	872 149	840 313
Cllr ST Khathi (Deputy Mayor)	706 600	681 131
Executive Committee Members	3 159 763	2 502 803
Cllr NP Mpanza (Speaker)	706 600	681 131
Other councillors	9 042 607	8 824 934
	14 487 719	**13 530 312**

Mayor (Cllr WT Dube)

Basic salary allowance	827 749	795 913
Cell phone allowance	44 400	44 400
	872 149	**840 313**

Deputy Mayor (Cllr ST Khathi)

Basic salary allowance	662 200	636 731
Cell phone allowance	44 400	44 400
	706 600	**681 131**

Executive Committee Members

Basic salary allowance	2 948 863	2 325 203
Cell phone allowance	210 900	17 600
	3 159 763	**2 342 803**

Speaker (Cllr NP Mpanza)

Basic salary allowance	662 200	-
Cell phone allowance	44 400	-
	706 600	**-**

Other Councilllors

Basic salary allowance	7 788 307	-
Cell phone allowance	1 254 300	-
	9 042 607	**-**

	2019 R	2018 R

26. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Commitee members are full-time.The Mayor, Deputy Mayor and Speaker are provided with an office and secretarial support at the cost of council.

The Mayor, Deputy Mayor and Speaker have use of council owned vehicles for official duties and each have one full time driver.

The Mayor has two full time bodyguards. The Deputy Mayor and Speaker have one full time bodyguard per person .

27. Contributions to Provisions

Contribution to Landfill Site Provision	210 121	295 552

28. Depreciation and amortisation

Property, plant and equipment	53 966 378	39 296 400
Investment property	590 123	590 117
Intangible assets	658 367	235 753
	55 214 868	**40 122 270**

29. Finance costs

Finance leases	161 394	321 448

30. Lease rentals on operating lease

Premises		
Contractual amounts	-	1 907
Plant and equipment		
Contractual amounts	233 418	853 454
	233 418	**855 361**

31. Debt impairment

Debt impairment	18 005 959	5 819 494

32. Contracted services

Outsourced Services		
Alien Vegetation Control	-	4 096 898
Burial Services	29 401	27 478
Business and Advisory	13 327 599	1 830 097
Catering Services	1 145 377	300 319
Cleaning Services	5 504 488	1 756 312
Clearing and Grass Cutting Services	189 696	345 493
Hygiene Services	1 135 917	136 505
Internal Auditors	354 929	28 841
Refuse Removal	6 687 649	5 572 112
Security Services	8 212 358	6 516 573
Swimming Supervision	1 350 960	1 125 081
Veterinary Services	71 000	57 771
Transport Services	261 076	243 675
Electrical	2 000 000	-

Notes to the Annual Financial Statements

	2019 R	2018 R
32. Contracted services (continued)		
Consultants and Professional Services		
Business and Advisory	1 683 345	2 484 614
Infrastructure and Planning	630 258	980 270
Legal Cost	3 700 845	4 490 336
Contractors		
Forestry	18 700	-
Catering Services	385 640	-
Employee Wellness	1 492 579	1 204 759
Event Promoters	5 000	-
First Aid	41 000	31 783
Fire Services	613 892	228 298
Maintenance of Buildings and Facilities	7 653 365	5 993 055
Maintenance of Equipment	4 573 947	8 978 765
Maintenance of Unspecified Assets	12 915 638	15 996 163
Medical Services	52 021	207 691
Traffic and Street Lights	510 320	1 145 023
Sports and Recreation	1 085 664	1 386 426
Stage and Sound Crew	90 847	61 650
Shark Nets	2 265 346	1 488 178
	77 988 857	**66 714 166**

33. Grants and subsidies paid

	2019 R	2018 R
Grants paid to ME's		
Municipal entities(USCDA & USCT)	1 746 174	641 828
Other subsidies		
Grant in Aid	291 718	528 493
Social Relief	46 400	31 324
Youth development	859 568	1 285 465
Grants & Donations	-	1 679 986
Skills development and training	1 871 503	1 483 390
	3 069 189	**5 008 658**
	4 815 363	**5 650 486**

Notes to the Annual Financial Statements

	2019 R	2018 R

34. General expenses

Advertising	1 187 330	1 876 281
Signage	42 715	120 569
Auditors remuneration	3 156 000	2 420 357
Bank charges	476 705	419 692
Rewards incentive	-	7 629
Commission paid	229 793	198 644
Learnerships and Internships	367 320	296 191
Consumables	8 500 653	2 029 908
Bursaries	296 025	142 605
Hire	1 341 801	66 271
Insurance	1 536 922	1 330 069
Conferences and seminar fees	734 468	781 214
Software expenses	3 257 886	2 764 861
Skills Development Levies	996 286	833 612
Fuel and oil	5 058 811	3 911 211
Printing, publications and books	696 803	232 751
Protective clothing	3 095 250	1 294 242
Drivers licence and motor vehicle fees	1 260 165	1 375 460
Subscriptions and membership fees	268 629	803 382
Communication	1 539 327	1 566 489
Travel and subsistence expenditure	1 410 055	864 249
Vehicle Tracking	273 716	243 616
Electricity and water	11 849 366	7 116 302
Workmens Compensation	2 030 318	1 592 588
Ward committees	2 110 800	2 064 200
Indigent relief	1 695 511	-
	53 412 655	**34 352 393**

35. Loss on disposal of assets and liabilities

Property, plant and equipment	-	481 457

36. Cash generated from operations

(Deficit) surplus	(22 552 000)	67 966 507
Adjustments for:		
Depreciation and amortisation	55 214 868	40 122 270
Loss on sale of assets and liabilities	-	(481 457)
Finance costs - Finance leases	161 394	321 448
Impairment loss	1 644 816	-
Debt impairment	18 005 959	5 819 494
Bad debts written off	495 105	-
Movements in operating lease assets and accruals	(105 794)	346 890
Movements in retirement benefit assets and liabilities	693 670	1 316 498
Movements in provison - refuse site	210 121	295 552
Housing fund	-	1 916 382
Prior year adjustments	(879 700)	908 490
Changes in working capital:		
Receivables from exchange transactions	(8 621 711)	(11 492 105)
Other receivables from non-exchange transactions	(10 835 733)	(13 302 958)
Payables from exchange transactions	5 021 365	(21 139 464)
VAT	403 592	(1 497 324)
Unspent conditional grants and receipts	6 620 778	(19 042 411)
	45 476 730	**52 057 812**

Notes to the Annual Financial Statements

	2019 R	2018 R
37. Auditors' remuneration		
Audit Fees	3 156 000	2 420 357

	2019 R	2018 R

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	19 707 798	22 362 933
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	1 955 000	-
Total capital commitments		
Already contracted for but not provided for	19 707 798	22 362 933
Not yet contracted for and authorised by accounting officer	1 955 000	-
	21 662 798	**22 362 933**

Authorised operational expenditure

Already contracted for but not provided for		
• Operational expenses	4 149 878	14 831 185
Not yet contracted for and authorised by accounting officer		
• Operational expenses	390 000	-
Total operational commitments		
Already contracted for but not provided for	4 149 878	14 831 185
Not yet contracted for and authorised by accounting officer	390 000	-
	4 539 878	**14 831 185**

Total commitments

Total commitments		
Authorised capital expenditure	21 662 798	22 409 787
Authorised operational expenditure	4 539 878	12 883 935
	26 202 676	**35 293 722**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Minimum lease payments due		
- within one year	1 656 837	124 823
- in second to fifth year inclusive	1 558 172	432 169
- later than five years	-	135 417
	3 215 009	**692 409**

Included in the above mentioned operating lease payments are the following major classes of leases, which are only significant collectively:

Rental expenses relating to operating leases		
Electronic Equipment	98 664	686 455
Properties	3 116 345	5 954

	2019 R	2018 R

38. Commitments (continued)

	3 215 009	**692 409**

The following restrictions have been imposed on the municipality in terms of the lease agreements on Office Equipment

(i) The equipment shall remain the property of the lessor.

(ii) The lessee shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement

(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

39. Related parties

Relationships

Related party transactions

	2019	2018
Transactions with key management		
Councillors - Remuneration	14 487 719	13 530 312
Municipal Manager and Section 57 personnel - salary costs	6 553 058	4 737 147
Transactions with related parties other than key management personnel		
Umdoni Municipality provides a subsidy to Ugu South Coast Tourism.	1 324 488	1 246 886
Umdoni Municipality provides a subsidy to Ugu South Coast Development Agency	633 937	-

Relationship between municipality and related parties

a) Umdoni Municipality's Municipal Manager is a director of the Ugu-South Coast Tourism and Ugu South Coast Development Agency, therefore Ugu South Coast Tourism and the Development Agency are related parties to Umdoni Municipality.

b) Key management and councillors have had direct or indirect significant control over the municipality and they receive remuneration from the municipality in terms of GRAP 20:35.

40. Risk management

Financial risk management

The Municipality has reviewed and assessed the following main categories of risk as being immaterial

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality’s income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

- Foreign currency risk

The municipality’s activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

40. Risk management (continued)

Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Credit risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents-The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with major institutions. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables-Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Instruments disclosure

The municipality does not hedge foreign exchange fluctuations.

In accordance with Grap 104 the Financial Assets of the municipality are classified as follows:

	2019 R	2018 R

40. Risk management (continued)

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Current investments	**Classification**
30 day deposits	Financial asset measured at amortised cost
	Financial asset measured at amortised cost
Trade receivables from exchange transactions & non-exchange transactions	
Consumer debtors	Financial asset measured at amortised cost
Other debtors	Financial asset measured at amortised cost
	Financial asset measured at amortised cost
Bank, Cash and Cash Equivalents	
Bank Balances	Financial asset measured at amortised cost
Cash on hand	At fair value

SUMMARY OF FINANCIAL ASSETS

	2019	2018
Financial Assets at Amortised Cost :		
Trade receivables from consumers	76 275 847	74 654 818
Trade receivables from other debtors	7 804 137	4 875 790
Bank balances	204 366 830	200 091 930
Financial Assets at Fair Value:		
Cash on hand	5 250	5 250
	288 452 064	**279 627 788**

FINANCIAL LIABILITIES:

In accordance with GRAP 104 the Financial Liabilities of the municipality are classified as follows :

Financial Liabilities	**Category**
	Financial asset measured at amortised cost
Long-term Liabilities	
Annuity Loans	Financial asset measured at amortised cost
	Financial asset measured at amortised cost
Creditors	
Trade creditors	Financial asset measured at amortised cost
Payments received in advance	Financial asset measured at amortised cost
Deposits - other	Financial asset measured at amortised cost
Staff leave	Financial asset measured at amortised cost
Other creditors	Financial asset measured at amortised cost
	Financial asset measured at amortised cost
Current Portion of Long-term Liabilities	
Annuity Loans	Financial asset measured at amortised cost
Financial liabilities at amortised cost	Financial asset measured at amortised cost

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

	2019 R	2018 R

40. Risk management (continued)

Finance Lease Liability	901 244	2 589 061
Consumer deposits	2 288 413	2 073 936
Trade creditors	25 985 864	22 528 263
Payments received in advance	5 686 491	5 321 746
Retention	12 203 183	13 334 791
Accrued leave pay	10 447 880	9 024 961
Unallocated deposits	1 257 836	564 618
	58 770 911	**55 437 376**

41. Events after the reporting date

Adjusting Events

Management have not identified any matter or circumstance since the end of the financial year, that will impact on the fair presentation of the annual financial statements.

Non Adjusting Events

Management have not identified any matter or circumstance since the end of the financial year, that will impact on the fair presentation of the annual financial statements

42. Unauthorised expenditure

Add: Unauthorised Expenditure - current year	42 302 463	-

The unauthorised expenditure relates to increased costs in accounting for non-cash items i.e. depreciation, impairment of assets and debt impairment. Additional expenditure was further required to be incurred to address the storm damage on infrastructure on other materials and contracted services.

43. Fruitless and wasteful expenditure

Opening balance as previously reported	108 985	15 318
Opening balance as restated	**108 985**	**15 318**
Add: Amount incurred - current year	192 289	93 667
Closing balance	**301 274**	**108 985**

Expenditure identified in the current year include those listed below:

Interest on late payments	2 614	93 667
Payment of storage and warrant of execution costs	189 675	-
	192 289	**93 667**

44. Irregular expenditure

Opening balance as previously reported	187 770 682	141 881 906
Less: Amounts Incorrectly disclosed as irregular expenditure	**187 770 682**	**141 881 906**
Add: Irregular Expenditure - current	11 528 308	45 888 776
Less: Amount written off (Council approval dated 12 August 2019 for 2017/18 period)	(187 770 682)	-
Closing balance	**11 528 308**	**187 770 682**

Notes to the Annual Financial Statements

	2019 R	2018 R

44. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

Three quotations not obtained	-	3 430
Expenditure exceeded the contract amount	670 831	-
Regulation 36 incorrectly applied	4 738 212	-
Awards to suppliers who are employed by the state	81 650	268 065
Awards to suppliers who are employed by the state	-	18 518 707
Regulation 32 contracts incorrectly applied	6 037 615	26 630 136
Declaration of interest not obtained	-	46 893
Invalid tax compliance certificate	-	35 308
Non compliance with CIDB Regulations	-	18 501
Non compliance with SCM Regulations	-	367 736
	11 528 308	**45 888 776**

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	1 030 690	803 382
Amount paid - current year	(1 030 690)	(803 382)
	-	-

Unemployment Insurance Fund & Skills Levy

Current year subscription / fee	1 696 618	1 417 926
Amount paid - current year	(1 696 618)	(1 417 926)
	-	-

Audit fees

Current year fees	2 818 617	2 420 357
Amount paid - current year	(2 818 617)	(2 420 357)
	-	-

PENSION & MEDICAL AID DEDUCTIONS

Amount paid - current year	14 248 364	12 623 182
Amount paid - previous years	(14 248 364)	(12 623 182)
	-	-

Bargaining Council : Levies and Staff Insurance

Current year subscription / fee	49 185	44 379
Amount paid - current year	(49 185)	(44 379)
	-	-

Councillors' arrear consumer accounts

There were no Councillors had arrear accounts outstanding for more than 90 days for the previous financial year ended 30 June 2019.:

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been approved .

An emergency
Expenditure of 2019: R 1 226 972 (2018: R 935 466) has been incurred in accordance with Section 36 of the SCM Regulations in respect of an emergency.

Goods and services procured or available from a single provider only
Expenditure of 2019: R: 1 222 635 (2018: R 2 860 948) has been incurred in accordance with Section 36 of the SCM Regulations in respect of goods and services or available from a single provider only.

Acquisition of special works of art or historical object where specifications are difficult to compile
Expenditure of 2019 R NIL: (2018: R 189 056) has been incurred in accordance with Section 36 of the SCM Regulations in respect of acquisition of special works of art or historical object where specifications are difficult to compile.

Exceptional case where it is impractical or impossible to follow the official procurement processes
Expenditure of 2019: R 1 862 843 (2018: R 2 144 161) has been incurred in accordance to Section 36 of the Regulations in respect of exceptional case where it is impractical or impossible to follow the official procurement processes.
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Notes to the Annual Financial Statements

	2019 R	2018 R

46. Contingent Liabilities

Matters arising from the erstwhile Vulamehlo Municipality not resolved to date - outstanding invoice claims	1 058 998	1 080 098
SARS VAT Audit Outcome in process of being resolved - provisional estimation of penalties	1 307 833	950 569
SARS VAT Audit Outcome in process of being resolved - input VAT adjustment amount	-	3 250 593
Personal injury claims against the municipality for injuries and damages sustained by claimant's child	3 339 759	3 426 528
Legal letters received by the Municipality relating to invoices and summons, for matters not finalized by year end	-	23 911 723
Order provided by the Municipality for services of water and sanitation at the Isonti Housing Project: payment outstanding from Ugu District Municipality	3 419 623	3 419 623
Claim for consideration to be paid for a pipeline that does not fall within the parameters of a previously registered sewer servitude	200 000	200 000
Breach of contract – construction and renovations to Umzinto Sports field were terminated. Contractor has claimed payment for services rendered subsquent to termination	2 510 007	-
Breach of contract claim in respect of a tender being awarded to a service provider but could not commence construction due to objections from the public	4 945 275	-
Breach of contract claim – rehabilitation of the Scottburgh CBD	24 688 499	-
Stormwater damage claims in respect of damages to residential and commercial properties	1 168 979	-
Breach of contract claim due to termination of agreement in respect of the Rehabilitation Umzinto CBD	13 203 585	-
Public Liability Claim for injuries sustained to due to stepping into a Pothole	120 000	-
Outstanding invoice claims from suppliers that are currently under legal dispute	2 481 288	-
	58 443 846	**36 239 134**

Contingent Liabilities that cannot be quantified:
The Municipality has commenced employee job evaluations as prescribed in terms of the salary wage collective agreement between SALGA, IMATU and SAMWU – 27 July 2012. As a result, the Municipality is unable to measure, with sufficient reliability, the amount of such obligation for as at 30 June 2019 and 30 June 2018.

47. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 923 288 658 and that the municipality's total assets exceed its liabilties by R 923 288 508.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

48. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

Notes to the Annual Financial Statements

49. Prior period errors and adjustments

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Statement of Financial Position

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Assets					
Current Assets					
Cash and cash equivalents		200 097 180	-	-	200 097 180
Receivables from exchange transactions		5 937 619	6 970 194	1 333 194	14 241 007
Inventories		-	8 849 172	-	8 849 172
Receivables from non-exchange transactions		-	(6 831 904)	61 061 475	54 229 571
VAT receivable		13 242 935	(1 050 671)	-	12 192 264
Consumer Debtors		62 394 669	-	(62 394 669)	-
Operating lease asset		69 012	-	-	69 012
		281 741 415	**7 936 791**	**-**	**289 678 206**
Non-Current Assets					
Investment property		25 896 629	(15 664 687)	-	10 231 942
Property, plant and equipment		727 024 233	7 604 448	-	734 628 681
Intangible assets		1 469 696	143 546	-	1 613 242
Heritage assets		261 011	-	-	261 011
		754 651 569	**(7 916 693)**	**-**	**746 734 876**
Total Assets		**1 036 392 984**	**20 098**	**-**	**1 036 413 082**
Liabilities					
Current Liabilities					
Employee benefit obligation		1 369 526	-	-	1 369 526
Payables from exchange transactions		53 265 841	(417 526)	-	52 848 315
Unspent conditional grants and receipts		2 167 155	-	-	2 167 155
Finance lease obligation		1 696 536	-	-	1 696 536
		58 499 058	**(417 526)**	**-**	**58 081 532**
Non-Current Liabilities					
Employee benefit obligation		18 836 985	-	-	18 836 985
Provisions		12 559 126	-	-	12 559 126
Finance lease obligation		892 525	-	-	892 525
		32 288 636	**-**	**-**	**32 288 636**
Total Liabilities		**90 787 694**	**(417 526)**	**-**	**90 370 168**
Net Assets		**945 605 290**	**437 624**	**-**	**946 042 914**
Net Assets					
Reserves					
Housing development fund		-	-	12 595 850	12 595 850
Accumulated surplus		945 605 288	437 626	(12 595 850)	933 447 064
Total Net Assets		**945 605 288**	**437 626**	**-**	**946 042 914**

Notes to the Annual Financial Statements

49. Prior period errors and adjustments (continued)

Statement of Financial Performance

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Revenue					
Revenue from exchange transactions					
Sale of goods		2 533 736	-	-	2 533 736
Service charges		9 448 460	-	(14 041)	9 434 419
Rental of facilities and equipment		5 640 909	-	-	5 640 909
Rendering of services		626 913	-	1 019 642	1 646 555
Investment revenue		14 285 877	-	-	14 285 877
Total revenue from exchange transactions		**32 535 895**	**-**	**1 005 601**	**33 541 496**
Revenue from non-exchange transactions					
Taxation revenue					
Property rates		89 864 923	-	(296)	89 864 627
Property rates - penalties imposed		5 788 247	-	296	5 788 543
Licence or permits (non-exchange)		8 282 495	-	(184 763)	8 097 732
Transfer revenue					
Government grants & subsidies		190 973 411	(8 000 000)	-	182 973 411
Fines, Penalties and Forfeits		1 452 908	-	69 223	1 522 131
Total revenue from non-exchange transactions		**296 361 984**	**(8 000 000)**	**(115 540)**	**288 246 444**
Total revenue		**328 897 879**	**(8 000 000)**	**890 061**	**321 787 940**
Expenditure					
Employee related costs		(84 577 680)	-	(2 299 410)	(86 877 090)
Remuneration of councillors		(13 530 312)	-	-	(13 530 312)
Contribution to/from provisions		(2 594 962)	-	2 299 410	(295 552)
Depreciation and amortisation		(40 086 995)	(35 275)	-	(40 122 270)
Finance costs		(321 448)	-	-	(321 448)
Debt impairment		(4 398 644)	(1 420 850)	-	(5 819 494)
Lease rentals on operating lease		(855 361)	-	-	(855 361)
Contracted services		(73 453 097)	-	6 738 931	(66 714 166)
Transfers and subsidies		(5 650 486)	-	-	(5 650 486)
General Expenses		(34 384 381)	-	31 988	(34 352 393)
Total expenditure		**(259 853 366)**	**(1 456 125)**	**5**	**(254 538 572)**
Operating surplus		**69 044 513**	**(9 456 125)**	**890 066**	**59 151 636**
Gain on disposal of assets and liabilities		481 457	-	-	481 457
Surplus for the year		**69 525 970**	**(9 456 125)**	**890 066**	**59 633 093**